Crestchic PLC

Growth momentum continues unabated

9 August 2022

Activity levels have improved further since the AGM, with today's trading update confident with regards to strategy, the strong pipeline of orders and demand levels within its markets. We have upgraded estimates (again) to reflect this, with rental markets particularly buoyant, which should result in Crestchic delivering record profitability levels in FY22 with adj. EPS estimates now 37% higher. We have accordingly raised our fair value / share to 283p, representing a premium of over 40% to the current share price.

- The step change in activity levels following the AGM (and timing of the previous upgrade) predominantly reflects **a booming demand for hire services**. A combination of equipment rental contracts overrunning, a strong pipeline of orders and the securing of the Group's largest contract to date underpin the upgrade to estimates. The rapid and continued growth within the datacentre market comes as no surprise, with the recovery in oil & gas exploration markets in the Middle East and Asia a strong contributory factor in response to higher energy pricing.

- The **record manufacturing order pipeline** now runs into FY23, as the previous backlog reduces, and new orders have been secured. The lengthening pipeline is, however, limiting the ability to manufacture for the Group's hire fleet.

- The supply chain challenges have resulted in delays in purchasing new equipment which predominantly caters for demand in the North American and European datacentre markets. However, the purchase and the subsequent refurbishment of used equipment is enabling Crestchic **to meet rising rental demand**. Utilisation rates are at record levels and new project demand stretches into FY23. Combine that with price increases plus strong performance in all sectors, and you have the background to the current virtuous circle.

- Contracts have been agreed for the **disposal of the remaining portion of the Tasman oil tools business** in the Middle East. The purchaser has paid a deposit and completion should occur within weeks, once the local regulatory approvals are forthcoming. The consideration payable is broadly as expected, with previous provisions proving sufficient.

Success not yet reflected in share price

Such is the step change in activity levels, biased towards the higher margin hire services, that our adj. EPS forecasts increase by a chunky 37%. The upgrades feed through to a marked improvement in our fair value calculation (based on a DCF and peer group comparison). At 283p / share (up from 249p) that represents a material premium to the current price.

Key financials

Y/e 31 Dec, £m	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	33.6	34.0	38.8	42.5	44.2
EBITDA	7.0	6.4	8.4	10.6	11.4
Adj. PBT	0.3	-0.2	3.0	7.2	8.1
Adj. EPS (p)	-0.8	-0.7	9.3	19.5	21.8
DPS (p)	0.0	0.0	1.0	2.0	2.8
Net Debt	-6.4	-5.4	-1.1	2.0	5.5
EV/EBITDA (x)	8.6	8.9	6.8	5.1	4.5
PER (x)	n/a	n/a	21.1	10.1	9.0
Yield (%)	0.0	0.0	0.5	1.0	1.4

Source: Company historics, ED estimates

Company Data

EPIC	LOAD
Price (last close)	196p
52 weeks Hi/Lo	210p/102p
Market cap	£55m
ED Fair Value / share	283p
Net cash (Dec '21)	£1.1m

Share Price, p

Source: ADVFN

Description

Crestchic is a specialist provider of electrical equipment used primarily to commission, test, and service within the global power reliability and power security markets.

It operates from 14 locations in 12 countries, including agents and distributors in California, China, UAE and Singapore. The Group supplies utilities, data centres, energy companies, shipbuilding, construction, and the public sector with loadbanks and transformers.

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Financials

Estimate changes

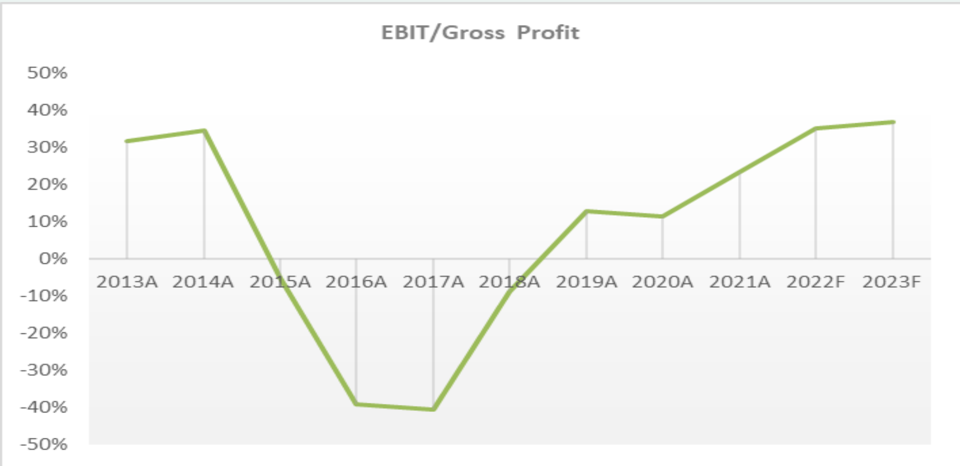
Y/e 31 Dec, £m	Old FY22E	New FY22E	Upgrade	Old FY23E	New FY23E	Upgrade
Revenue	39.0	42.5	9.0%	40.7	44.2	8.6%
Gross profit	19.1	21.4	12.2%	19.7	22.5	13.9%
EBIT	5.5	7.5	36.3%	6.2	8.3	34.5%
Adj. PBT	5.2	7.2	38.4%	5.8	8.1	38.9%
Adj. EPS (p)	14.2	19.5	37.5%	15.9	21.8	36.9%
DPS (p)	2.0	2.0	0.0%	2.8	2.8	0.0%
Dividend cover (x)	7.2	9.8		5.0	7.8	55.6%
Net cash/(debt)	0.6	2.0	247.8%	2.8	5.5	97.7%
Net debt/EBITDA	-0.1	-0.2	91.9%	-0.3	-0.5	62.0%

Source: ED

The acceleration in the trading momentum has resulted in substantial upgrades to FY22 and FY23 EBIT, adj. PBT and adj. EPS estimates, driven primarily by the leap in demand for rental services.

We estimate that hire services will account for c. 55.5% of revenues across each of FY22 and FY23, rising from an estimated 53% previously. The outcome related to the rising proportion of hire revenues is an increase in gross margin to a range of 50% to 51% during the forecast period. Those levels remain below the peak of 54% in 2013 - suggesting further potential upside, and highlight the Group's above average levels of operational gearing, which we anticipate reaching new highs in FY23:

Rising levels of operational gearing evident

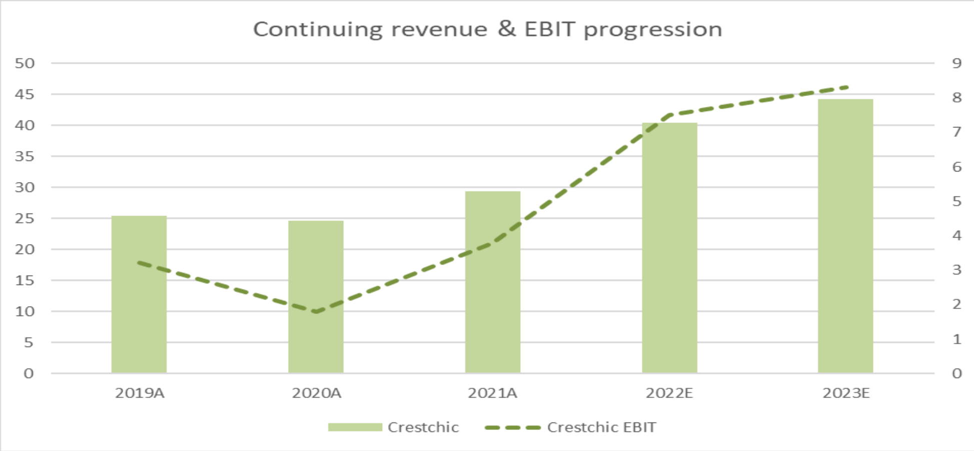


Source: Company historics, Equity Development estimates

The next chart highlights the notable jump in activity levels, driven by rising demand for load bank hire and in turn resulting in record utilisation levels. While activity within the data centre market continues to improve rapidly, other sectors such as oil & gas have recovered significantly yoy, aided by the sharp rise in energy prices. The opening of the new manufacturing extension in mid-year has also been a positive factor, solving previous capacity constraints.

Stripping out the loss-making Tasman Oil Tools business (including joint ventures), **we anticipate revenue growth improving to 37.5% yoy in FY22**, followed by 9.1% in FY23 and underlying EBIT margins to rise from 12.9% in FY21 to 18.8% by FY23. With interest payments remaining at low levels, this feeds through to adj. PBT and a more than doubling of adj. EPS yoy in FY22.

Crestchic: continuing revenue & EBIT growth



Source: Company historics, Equity Development estimates

Summary Profit & Loss

Year to Dec 31, £m	2019A	2020A	2021A	2022E	2023E
Crestchic	25.4	24.6	29.5	40.5	44.2
Tasman Oil Tools	8.2	9.4	9.4	2.0	0.0
Total Revenue	33.60	33.98	38.81	42.50	44.20
CoGS	-17.8	-19.3	-20.9	-21.1	-21.7
Gross profit	15.8	14.7	17.9	21.4	22.5
Gross margin (%)	47.0%	43.2%	46.2%	50.4%	50.9%
Op costs	13.6	13.4	13.7	13.9	14.2
Other operating income	-0.1	0.4	0.0	0.0	0.0
Associates/JVs	-0.8	-0.6	-0.4	0.0	0.0
Operating profit	1.2	1.1	3.8	7.5	8.3
Op margin (%)	3.5%	3.3%	9.9%	17.6%	18.8%
Net Interest	-0.9	-0.7	-0.5	-0.3	-0.2
PBT (Adjusted)	0.3	-0.2	3.0	7.2	8.1
Exceptionals	0.0	-7.8	-7.6	0.0	0.0
PBT (Reported)	0.3	-8.5	-4.7	7.2	8.1
Tax	-0.6	-0.1	-0.7	-1.4	-1.6
PAT	-0.2	-8.7	-5.3	5.8	6.4
Minority interests	0.0	0.0	0.0	0.0	0.0
Earnings	-0.2	-8.7	-5.3	5.8	6.4
Ordinary Dividends	0.0	0.0	-0.3	-0.6	-0.8
Retained Profit	-0.2	-8.7	-5.6	5.2	5.6
EPS (Adjusted) (p)	-0.8	-0.7	9.3	19.5	21.8
DPS (p)	0.0	0.0	1.0	2.0	2.8
Avge no of shares (FDil) (m)	28.2	28.2	28.5	29.5	29.5

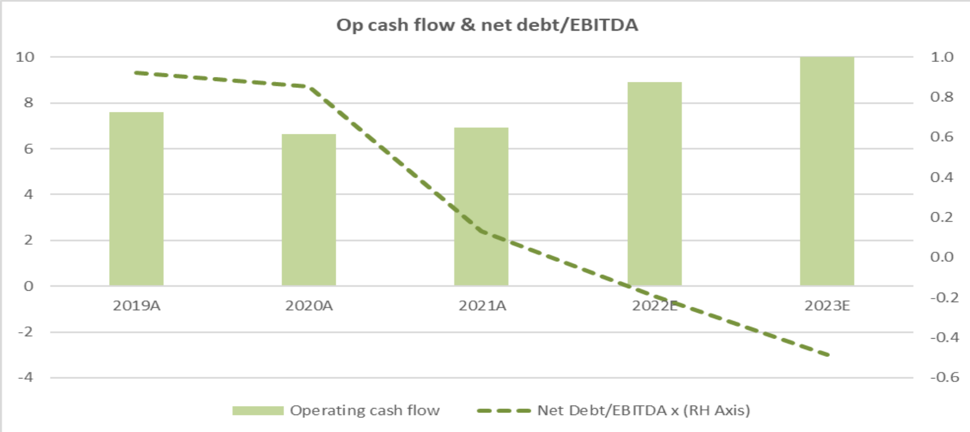
Source: Company historics, Equity Development estimates

The strong improvement in profitability is the key driver of EBITDA rising to a potential £10.6m during FY22, representing the highest level since FY14. A working capital outflow of £1.7m, reflecting the higher activity levels and increased levels of international projects, with working capital days rising to c.70.5 (FY21: 61.0).

Other significant capital outflows include capex (consisting of the factory extension, new and used equipment) and share buy-backs (with the purchases ahead of previous expectations), partially offset by the consideration from the disposal of Tasman.

Dividend cover remains high, suggesting there is room for potential increases in distributions: either at the interims or when reporting the preliminary results in early Q2 '23.

Crestchic: operating cash flow & Net debt/EBITDA progression



Source: Company historics, Equity Development estimates

Summary Cash Flow

Year to Dec 31, £m	2019A	2020A	2021A	2022E	2023E
Operating profit	1.2	1.1	3.8	7.5	8.3
Depn. & Amortn.	5.8	5.3	4.6	3.1	3.1
Working capital movement	0.6	0.2	-1.0	-1.7	-1.0
Other	0.0	0.0	-0.5	0.0	0.0
Operating cash flow	7.6	6.6	6.9	8.9	10.4
Net Interest	-0.9	-0.7	-0.5	-0.3	-0.2
Taxation	-0.6	-0.5	-0.5	-1.0	-1.5
Net capex	-2.2	-2.6	-0.8	-6.3	-5.0
Operating FCF	4.0	2.8	5.1	1.3	3.6
Net (Acquisitions)/Disposals	-0.1	0.0	0.0	4.2	0.5
Dividends	0.0	0.0	0.0	-0.5	-0.7
Share Issues	0.0	0.0	1.1	-2.2	0.0
Minority payment	-1.4	-0.3	0.0	0.0	0.0
Other financial	-0.3	-1.5	-1.9	0.3	0.0
Increase Cash/(Debt)	2.3	1.0	4.3	3.1	3.5
Opening Net Cash/(Debt)	-8.7	-6.4	-5.4	-1.1	2.0
Closing Net Cash/(Debt)	-6.4	-5.4	-1.1	2.0	5.5

Source: Company historics, Equity Development estimates

The balance sheet is underpinned by the hire fleet and working capital. We expect Crestchic to move from a position of net debt to net cash during the current year, with cash levels improving further in FY23.

Abbreviated Balance Sheet

Year to Dec 31, £m	2019A	2020A	2021A	2022E	2023E
Intangible Assets	11.6	4.5	4.3	4.3	4.3
Tangible Assets	25.6	24.5	12.1	15.3	17.3
Investments/other	0.9	1.0	2.8	2.8	2.8
Net Working Capital	5.8	5.2	2.8	4.5	5.5
Assets held for sale			4.7		
Capital Employed	43.9	35.1	26.8	26.9	29.8
Other	0.0	0.0	0.0	0.0	0.0
Net Cash/(Debt)	-6.4	-5.4	-1.1	2.0	5.5
Provisions Liabilities/Charges	-2.2	-2.0	-2.3	-2.3	-2.3
Net Assets	35.2	27.7	23.3	26.7	33.1

Source: Company historics, Equity Development estimates

Valuation

We have constructed a discounted cash flow model for Crestchic, using what we feel are conservative assumptions: such as a discount rate of 8.25% and a terminal growth rate of 2.5%. The DCF model suggests a fair value of 347p / share.

Crestchic DCF calculation

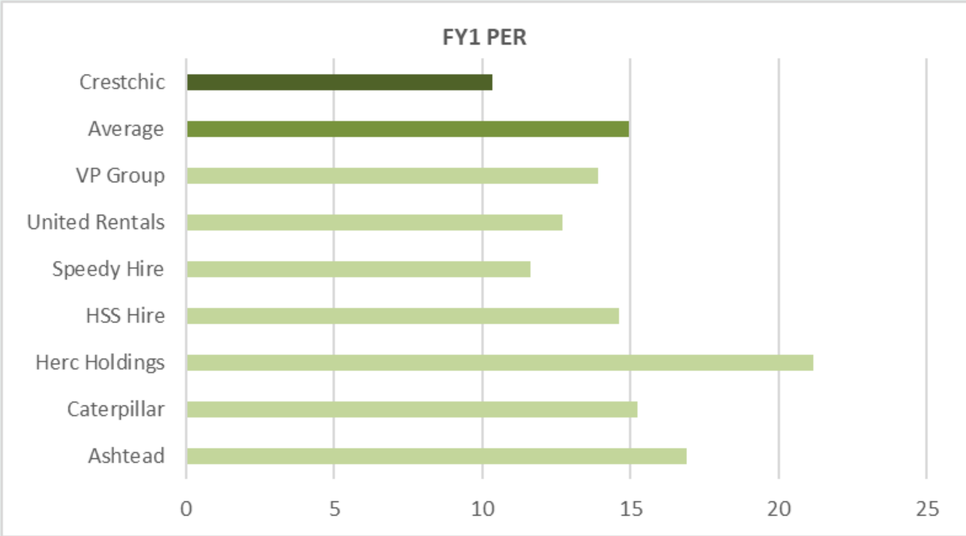
Y/e Dec 31, £m	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Free cash flow	4.7	5.8	5.9	6.1	6.2	6.4	6.5	6.7	6.9	7.0
WACC (%)	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25
Timing factor	0.42	1.42	2.42	3.42	4.42	5.42	6.42	7.42	8.42	9.42
Discount rate	0.97	0.89	0.83	0.76	0.70	0.65	0.60	0.56	0.51	0.47
Present value	4.6	5.2	4.9	4.6	4.4	4.2	3.9	3.7	3.5	3.3
Sum of discounted cash flows	42.3									
Terminal growth rate (%)	2.50									
Terminal value	58.1									
Net debt	2.0									
Equity value	102.4									
No. of shares (m)	29.5									
Value per share, p	**346.8**									

Source: Equity Development

In determining a measure of fair value for the Group we have also utilised the average of our peer group comparison model, incorporating projections for year one PER, EV/EBITDA, and EV/sales.

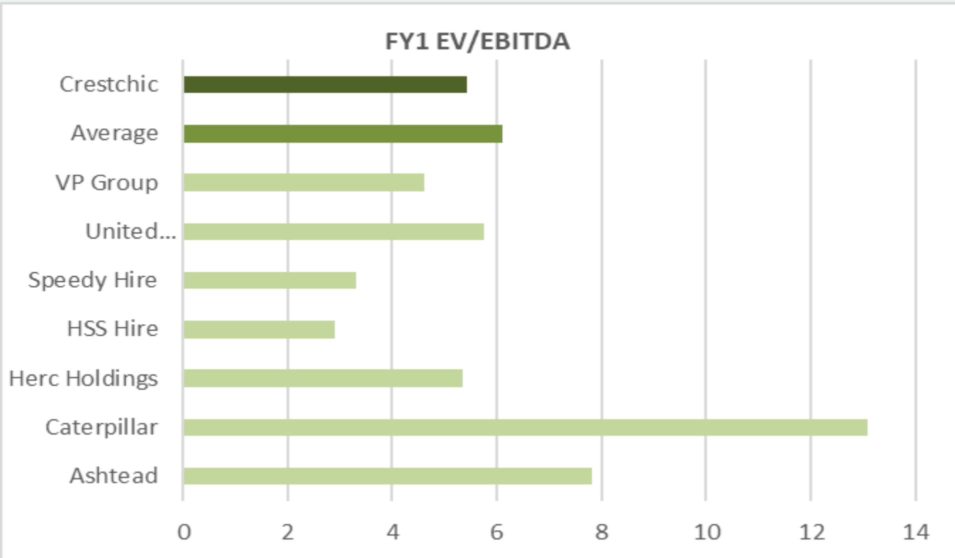
With suggested values for the average of its peers ranging from 217p (FY1 EV/EBITDA) to 291p (FY1 PER), applying an average suggests **a value / share of 262p**.

Peer group comparison: FY1 PER



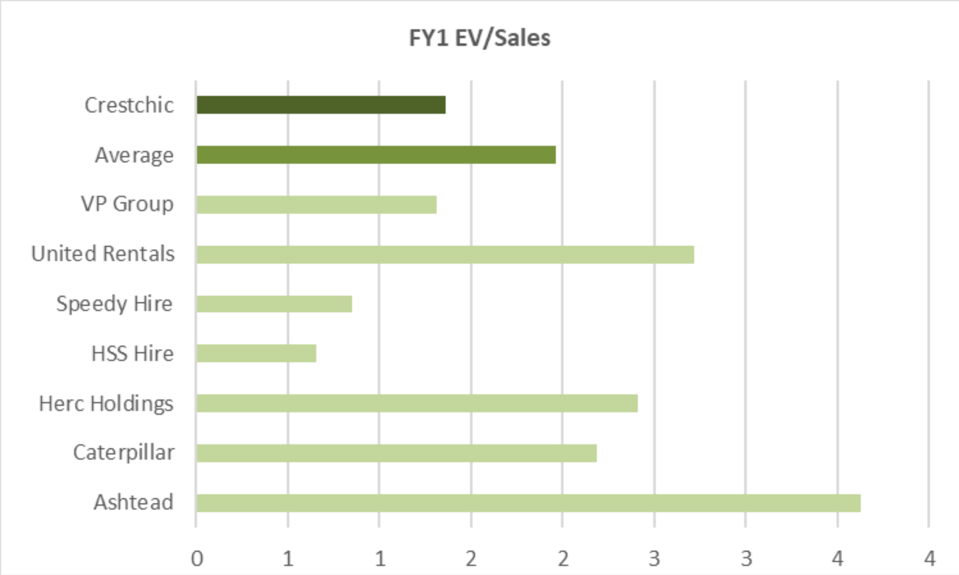
Source: Market Screener, ED

Peer group comparison: FY1 EV/EBITDA



Source: Market Screener, ED

Peer group comparison: FY1 EV/Sales



Source: Market Screener, ED

Conclusions

On this basis, we have reached a fair value of 283p / share, reflecting the average of all the utilised valuation models.

ED fair value / share

	Fair value (p)
DCF	346.8
PER	291.1
EV/EBITDA	216.6
EV/Sales	279.2
Average	**283.4**

Source: ED, Market Screener

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